

June 1958

- A. Introduction (Briefing Aid - (1) U.S. & USSR Agricultural Statistics 1957)
(2) Comparison of U.S. and USSR Average Diets

B. Agriculture in the 25 years between 1928 and 1953

1. First Five-Year Plan -- 1928
2. Collectivization of agriculture began the same year -- reached full-swing by 1930.
3. Purpose of collectivization: to secure State control over the food supply, both to feed the urban population and to secure capital for industrial development, to take advantage of the benefits of large scale agriculture. Also had ideological overtones.
4. These purposes were a reflection of Soviet economic policy which called for industrial growth at the fastest possible pace and for treating consumption as a residual to be minimized. This policy gave an overriding priority to heavy industry and led to virtual neglect both of agriculture and of the industries producing consumers goods.
5. There were three basic agricultural institutions after collectivization:
 - a. Collective farms-Nominally not State institutions, and not supported by State budget. The collective farms make compulsory deliveries to the State at fixed and relatively low prices. Over quota deliveries are required by the State, but at higher prices. The balance of their output can be freely sold. The net income of the collective farms is shared by the collective farmers in accordance with the quantity and quality of work performed.

~~SECRET~~

SECRET

- (1) Collective farmers are allowed to retain some land in private plots. At the present time the output of the plots may be freely sold by the collective farmer on the open market. The average size of private plots in the USSR is a little less than one acre.
- (2) The private plots are particularly important in the case of livestock and potatoes. In 1956, 47% of the cattle, 56% of the cows, 38% of the pigs, and 31% of the sheep and goats in the USSR were on private plots. In recent years the private plots have produced about half the Soviet harvest of potatoes.

SECRET

SECRET

b. State farms -- Owned by the State, and are on cost accounting basis. State budget provides some investment funds, meets losses, and gets net income.. All the output sold to the State. Agricultural workers are paid wages.

c. Machine tractor stations -- State institutions which originally had both a political and an economic role. In the former they served as a device for control over the countryside. In the latter they provided the service of machinery to the collective farms in return for payment in kind. The MTS are not on a cost accounting basis. Their receipts and expenses are both in the State Budget on a gross basis.

6. By 1953 the USSR had become the second largest industrial country in the world, but its agriculture was stagnant. Grain production was not as great as before World War I, and livestock numbers were less than in 1928.
7. Light industry, which depends on agriculture for many of its raw materials, also made little progress during this period.

C. Recent Agricultural Programs

1. Since 1954 the USSR has embarked on several important programs in the field of agriculture. They have all been the handiwork of Nikita Khrushchev.
2. One of these is the so-called New Lands Program inaugurated in 1954.
 - a. This program involves the cultivation of previously virgin and idle land. So far 86 million acres have been added to the cultivated area in the USSR, about half in Kazakhstan and half in Western Siberia.

SECRET

SECRET

- b. Briefing Aids: USSR New Lands Program; Canada Spring Wheat Region -- The program extended agriculture into highly marginal regions, in terms of rainfall, and length of growing season. The drought risk is very great.
- c. To date the New Lands Program cannot be called either an unqualified success or an unqualified failure. It has helped to boost grain production and has provided insurance against crop-failure in the Ukraine, but the program has been very costly, has apparently not met the expectations of its planners and involves long-run risks.

NEW LANDS
GRAIN

| | <u>Acreage</u> (Acres) | <u>Yield</u> (Bushels per Acre) | <u>Production</u> (Million metric tons) | <u>Percentage USSR</u> <u>total</u> |
|------|---------------------------|---------------------------------------|---|--|
| 1954 | 10,600 | 15.7 | 4,500 | 5 |
| 1955 | 45,750 | 6.5 | 7,950 | 8 |
| 1956 | 64,000 | 16.2 | 28,000 | 22 |
| 1957 | 64,000 | 7.5 | 13,000 | 13 |

3. The second important program is the corn program.
- a. The basic aim is to effectuate substantial improvement in the supply of fodder so as to permit increases in the production of livestock, and livestock products, and to improve the quality of the Soviet diet.
- b. The corn program may have received its impetus from the visit of the Soviet agricultural delegation to the U.S. in 1955.

SECRET

SECRET

- c. In 1954, corn acreage was slightly less than 11 million acres. The goal is 70 million acres by 1960.
- d. Corn acreage increased rapidly to 60 million acres in 1956, but fell off to 47 million acres in 1957. It will be about the same in 1958.
- e. Khrushchev has waxed, waned, and waxed again on corn. Mention of this program was at a minimum in 1957 and early this year; Khrushchev seemed to switch his affections to an increase in potato production. Recently he has again been beating the drum for corn.
- f. Production of corn in 1954 was 3.8 million metric tons. Production peaked at 14.8 million metric tons in 1955, fell to 12.6 million metric tons in 1956 and to $7\frac{1}{2}$ million metric tons in 1957. These figures include ensiled immature ears of corn converted to a grain basis but exclude corn which did not form ears. Silage totalled 52 million tons in 1957. (may be double counting)
- g. Corn is an unproductive crop in the USSR on a large scale -- the USSR has no corn belt. The sharp increase in acreage and production reflected initial enthusiasm; the subsequent drops fostered farmer doubt. Our studies show that the food value of corn and silage in most of the USSR is only slightly greater than for small grains on the same land, and at much greater cost.
- h. Khrushchev's goal is to produce 12 to 16 tons of silage per acre. The U.S. average is only 8 to 9 tons.

SECRET

4. A much publicized recent program is the one for catching up with the US in the per capita production of meat and milk. Khrushchev described the success of such a program as more powerful than the hydrogen bomb.
- a. Khrushchev announced this program in May 1957 while he was perhaps unduly exhilarated by the good harvest of 1956.
 - b. He indicated that his economists had told him that goals could not be achieved for many years, but that he had overruled them.
 - c. He aimed to catch up with the US in per capita milk production by 1958 and in per capita meat production by 1960 or 1961.
 - d. Milk production has increased sharply over the past two years; absolute production is now not much less than that in the US (48.2 vs 57.3 in 1957). The production of meat has not increased very much -- it was less than one-third US production in 1957.
 - e. The per capita goals will not be met. USSR milk production would have jump to 68 million tons in 1958. The situation is much worse for meat -- production would have to quadruple by 1960-61. They require larger supplies of fodder than could possibly be available under the programs now planned for increasing fodder supplies.
 - f. The Soviets themselves have stopped talking about exceeding our per capita milk production in 1958. At best they now talk about beating our absolute production.
 - g. Khrushchev has also changed his tune regarding meat. Whereas he used to say that the USSR would exceed US per capita levels, he now says that they will do so if adequate fodder is supplied. He said that 4-5 times as much fodder as is now produced would be required.

SECRET

5. Early this year, the USSR adopted a measure for the radical reorganization of the Machine Tractor Stations. Khrushchev was again the moving force behind the change.
 - a. The Russians plan to sell the machinery now held by the machine tractor stations to the collective farms and to convert the machine tractor stations into repair and supply stations. In the future collective farms will purchase new machinery from the repair and supply stations. The repair tractor stations will also provide repair services, supplies, and the services of machinery for non-field work, such as irrigation and road-building.
 - b. Khrushchev reasoned that MTS's were no longer required to exercise political control over the countryside. He also argued that most collective farms had grown into economically strong enterprises with sizeable incomes and considerable wealth. He stated that collective farmers could now make better use of machinery than the MTS and that MTS's were no longer needed to demonstrate the advantages of large scale collective farming or to serve as a source for the accumulation of grain. He concluded that the USSR should end the situation in which there were two masters and two administrative organizations on the same land.
 - c. The reorganization, according to Khrushchev, is to proceed slowly and in accordance with the ability of the collective farmers to buy and use the machinery. In some areas, the transformation is virtually complete.

SECRET

~~SECRET~~

- d. Implementation of this change has just begun and it is too early to evaluate its ultimate effects. It seems clear, however, that it will improve efficiency in the countryside.
 - e. Khrushchev has already warned that collective farms must be guided by the party in the purchase of machinery, in order that they not practice false economy.
 - f. The MTS reorganization has created an ideological stir. Khrushchev felt it necessary to ^{defend} ~~defeat~~ the ideological purity of this move.
6. The past few years have also seen a great increase in the mechanization of agriculture.
- a. The Soviet Union plans for substantial increases in the production of machinery between now and 1960, but even in 1960 Soviet agriculture will not be as well off as U.S. agriculture.
 - b. The mechanization program is at present designed primarily to increase output rather than to save labor.
 - c. The greatest emphasis is being put on the production of smaller wheeled as opposed to larger track-laying tractors and on tractor-mounted as opposed to tractor-drawn equipment.
 - d. The increase in the output of agricultural machinery is another manifestation of the increased emphasis on agriculture since 1953.
7. The Soviet authorities have also made greater use of incentives in stimulating agricultural output.

~~SECRET~~

SECRET

- a. In 1954 and 1955 the USSR increased the prices paid for agricultural products sold to the State, both quota and over-quota.
- b. Compulsory delivery quotas were reduced for such important items as grain, potatoes, and vegetables.
- c. The agriculture tax was lowered.
- d. A system was instituted for paying farmers monthly instead of at the end of the year.
- e. Bonus payments were instituted for programs receiving special emphasis (for example, a bonus for corn production in 1955).
- f. Incentive measures related to cotton production were adopted in August 1956.
 - (1) Basic procurement prices were increased.
 - (2) The system of premium payments revised.
 - (3) Payments in kind to the MTS were substantially reduced.
 - (4) Mineral fertilizers were sold at wholesale prices.
 - (5) Irrigation water was supplied free of charge.
- g. Effective 1 January 1958 -- Compulsory deliveries from private plots were abolished.

D. Agriculture and the Soviet Economy

1. Modification of priorities

The agricultural programs above represent a significant modification of the overriding priority once enjoyed by heavy industry and the military establishment. Heavy industry and the military still have first priority. But whereas Soviet leaders used to speak of the

SECRET

SECRET

priority development of heavy industry, they now speak of the simultaneous development, for example, of industry and agriculture, with priority to heavy industry. This is a subtle change in phraseology, but represents a real change in policy. Under Stalin, allocations to agriculture and consumer industry were almost automatically cut when any kind of pinch developed in heavy industry or military production. This is no longer true. The modification of priorities in favor of agriculture, as well as housing and consumer goods, was probably made for the following reasons:

- a. A recognition that the harsh and coercive policies of a Stalin were no longer feasible or desirable, and that it was necessary to provide greater material incentives to the population.
 - b. The Soviets decided to challenge the U.S. to a competition not merely in the growth of heavy industry, but also in the production of agricultural commodities and consumer goods. They plan to surpass U.S. per capita production in these fields and have called this the main economic task. I will say more about this later.
 - c. According to Khrushchev, the Soviet economy has grown so large that it can do more in the agriculture and consumer goods fields without sacrificing the priority development of heavy industry and the military.
2. Khrushchev's last statement is to a considerable degree true, but it is not 100% true. Heavy industry, to be sure, is still given

SECRET

~~SECRET~~

priority, but it does not receive all the resources that it could use for its own development. A look at the allocation of investment funds and of labor will illustrate what I mean.

- a. Agriculture now gets a larger share of State investment funds than ever before. Such outlays between 1955 and 1960 will be twice those between 1950 and 1955.
- b. In 1953 agriculture got 8.6% of total State investment. In 1955 it got 13.3% and in 1957 it got almost 14%.
- c. In 1956 and in 1957 the USSR experienced shortages of key raw materials largely because of past failures to invest enough money for the expansion of basic capacity. Under Stalin agriculture would have been cut for the benefit of industry. In fact, 1957 saw increases in investment allocations to agriculture and to housing as well, as compared with 1956. More investment funds were also provided to the basic materials industries, particularly ferrous metals and coal. But these were not at the expense of agriculture or the consumer. Rather, immediate production goals were cut to restore the balance between raw materials and production until new capacity could be completed.
- d. Until 1953 agriculture served as a source of labor for industry. Since 1953 the agricultural labor force has increased and agriculture has on balance supplied no workers for industry. Thus industry has been deprived of one source of the striking production gains achieved in the past.

~~SECRET~~

SECRET

e. Briefing Aids: Comparison of U.S. and USSR Population and Employment 1957 Annual Averages; ~~the distribution of labor between the two countries~~ -- Agriculture is still a heavy user of labor, and the potentialities for transforming labor to industry are good in the long run.

3. The changed status of agriculture has implications for Soviet economic growth and particularly for the growth of industry. As I just noted, investment allocations to agriculture are being increased, and so are those to housing and the consumer industries. Because the total quantity of funds available for investment has grown, the remaining investment funds might have been sufficient to support a rate of growth in industry comparable to that achieved in the past, if conditions were the same as in the past. But apparently they are not. There is evidence that it now takes more rubles of investment to secure a given increase in industrial output than it did five years ago. This is because: (1) Many of the "easy" gains in output achieved in the past are no longer available, (2) For this and other reasons, there has been a tendency for investment costs to rise in the USSR, (3) Investment is being shifted into areas where investment costs per unit are considerably higher than in industry as a whole.

a. The Soviet leaders are therefore, in a sense, attempting a complicated juggling act. They want to maintain the priority of heavy industry and ~~the~~ advanced weapons systems and at the same time give more to agriculture, housing, and the consumer

industry. But in modifying their priorities in favor of agriculture and consumer welfare, they are making it more difficult to maintain their previous rate of industrial growth.

4. The Soviets are trying to get out of this dilemma through massive increases in labor productivity. They are attempting to do this by greatly increasing mechanization and automation in industry. They also hope that the recent reorganization of industry and of the MTS will lead to greater efficiency in the use of resources. In fact, the reorganization of industry seemed to be the answer of Khrushchev and the party to those -- principally among the managerial and technical group -- who were pessimistic about being able to push ahead at a fast pace in industry. Finally, the Soviet leaders hope that by increasing material incentives, workers and peasants will produce more. This is to be done by increasing the supply of agricultural commodities and consumer goods. In summary, the Soviets hope that the agricultural and consumer programs can be carried out without serious cost to heavy industry, through an increase in labor productivity, and that the agricultural and consumer programs will themselves help to increase labor productivity by adding to the material rewards of the working population.
- a. This does not mean that the Soviets are facing a crisis or anything like it. Even with the greater emphasis on agriculture, housing, and consumer goods, industry and the economy will continue to grow.

- b. From 1951-55, Soviet industrial production increased by an average of 13.1% per year. In 1956 the increase was 10.7% and in 1957, 10%. These rates are still high -- about twice those in the US.
 - c. However, although most of the original producers goods goals for 1960 will be met, most of those for consumers goods will not.
 - d. In the longer run, increases in mechanization will permit the release of workers from agriculture to industry.
5. A word might also be said about the effect of the recent agricultural programs on the USSR's role as an importer and exporter of agricultural commodities.
- a. Prior to 1914 Russia was a major exporter of grain.
 - b. In the early years of the Soviet period, agricultural commodities were exported to secure needed foreign exchange for the import of industrial equipment.
 - c. Since the war the USSR has been an exporter of agricultural commodities to the European Satellites. These exports jumped sharply in 1956-1957.
 - d. At no time since the revolution has the USSR been an important factor in world agricultural markets.
 - e. Even though the USSR produces no true surplus, it could if it wished become a substantial exporter of agricultural commodities right now. This will not happen, however, without a highly improbable shift in Soviet policy. The Soviet leaders have made many promises to their people about improvements in their

standards of living. These promises are seriously intended; to go back on them would cause serious repercussions and would constitute a risk that not even the leaders of a totalitarian society would be prepared to take.

- f. I have suggested that the corn and New Lands programs are not likely to achieve the success expected of them. Even if they did, the added supplies of small and coarse grains would be required for the meat, milk, and livestock program and for other programs to increase consumer welfare.
- g. On the import side, no doubt the USSR would find it cheaper to import many of the agricultural commodities they are trying to grow at home at high cost. Up to now, it has not been their policy to import foodstuffs on any large scale because they did not want to risk dependence on the outside world. In 1956/1957, the USSR exported 6.7 million tons of grain, including 4.7 to the East and most of the rest to Western Europe. Total imports were only 148 thousand tons.
- h. The USSR could use substantial imports to assist it in carrying out its present programs for increasing the level of living of its people.
- 6. The agricultural programs that I have just discussed are all mixed up with domestic Soviet politics.
 - a. As I have suggested earlier, all the ^{major} ~~larger~~ agricultural programs, and those in the consumer field as well, are associated with Khrushchev.
 - b. These programs were opposed by important members of the Soviet hierarchy, including the Stalinists, who felt that they represented

SECRET

- an undue degree of relaxation which could get out of control.
- c. One of the charges levied at Malenkov, Molotov, Kaganovich, Shepilov, who were ousted from their ^{party} ~~party~~ and government positions last June, was that they opposed the Khrushchev programs for agriculture.
 - d. If these programs fail, the effect on Khrushchev's fortunes may be very great indeed. We believe that there are still opposition elements in the Soviet party and government, who would jump on Khrushchev at the first opportunity.
 - e. The internal liberalization typified by the new agricultural programs is not without its dangers to the Soviet regime, as distinct from Khrushchev personally. It is possible, for example, that the Soviet people will become preoccupied with material things and with improving their standard of living and lose their interest in Communism and the triumph of Communism over capitalism. This would be long-term.
7. The new internal orientation exemplified by the agricultural programs, and especially the drive to catch up with the U.S. in ~~the~~ per capita production, have important international implications.
- a. Material success in increasing agricultural output and improving standards of living would have an enormous impact on the uncommitted countries of the world, and would be a great Soviet victory in its competition with the West.
 - b. The Soviet leaders expect nothing less than the victory of

~~SECRET~~

socialism over capitalism if they can achieve these objectives. Khrushchev has said: "The victory of a social order will be solved not by rockets nor by atomic or hydrogen bombs, but by the social order which insures more material and spiritual good for humanity." Pravda has said: "On the outcome of the economic competition between the two systems [socialism and capitalism] will depend the outcome of the struggle of socialism and capitalism."

- c. At first thought, such claims may seem absurd, and no doubt they are overdrawn. Nonetheless, there is a great element of truth in them, particularly with respect to countries of the world which have not yet experienced an industrial revolution.
- d. Our own Director said the following in this connection: ".....As I see it, under its present policy the USSR does not intend to use its military power in such a way as to risk a general war it is most probable that the fateful battles of a cold war will, in the foreseeable future, be fought in the economic and subversive arenas."
- e. This does not mean that Mr. Dulles agrees with the Soviet quotations that I have just given, but it does mean that he, like many others, takes a serious view of the impact of what the Soviets are trying to accomplish.
- f. It should be noted, in this connection, that although the economic challenges to the West are broadly stated, the specific programs have been highly selective e.g. meat, milk, and butter

~~SECRET~~

SECRET

e.g. fabrics, footwear and knitwear. Khrushchev has not said anything about surpassing U.S. agriculture in total production and efficiency.

SECRET